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SUBJECT: CZECH REPUBLIC: AERO VODOHODY NOW FOCUSED ON
PRODUCING CUSTOM PARTS AND ASSEMBLING HELICOPTERS FOR
FOREIGN PARTNERS

1.(SBU) Summary: Aerovodohody (Aero), located just north of Prague, was once one of the largest producers of aircraft in the world. Since the fall of communism, the company has been restructured several times and is now wholly- owned by the Penta Private Investment Group. Aero no longer manufactures complete aircraft and now concentrates on manufacturing of structural parts for a number of major U.S. and foreign aerospace companies and the assembly of helicopters for Sikorsky, the U.S. helicopter company. In the latest restructuring, Aero's workforce shrunk from 6000 employees to around 1300 and has become profitable. Penta is now seeking to expand Aero's markets and production lines. End Summary.

Long History of Aircraft Production

2.(SBU) Founded in 1919, Aero was historically one of the largest producers of aircraft in the world. The firm produced over 6500 jet trainers that were used in over 30 countries. From 1953-1972, the company produced 3700 MIG-15s, MIG-19s, and MIG-21s. From 1971-1999, the company manufactured 3600 L-29 and L-39 aircraft. To produce these aircraft, Aero occupied a huge facility that includes its own airport.

Failed Marriage with Boeing

3.(SBU) In 1998, Aero entered into a strategic partnership with Boeing. Boeing took a 35% stake in the company, with the Czech Government being the other major stakeholder. Aero and Boeing hoped Aero's long tradition of producing high quality trainers could leverage Boeing's marketing and avionics expertise to increase aircraft sales. The first major test of this project was the L-159 aircraft. Per reftel, Aero signed a contract to provide the Czech Air Force with 72 L-159 Advanced Light Combat Aircraft (ALCA). However, no other orders materialized and Boeing withdrew from the partnership in 2004 and transferred its 35% stake back to the Czech Government.

Aero Sold to Penta, Refocuses Efforts

4.(SBU) In January 2007, the Czech Government sold its stake in Aero to the Penta Group, a Czech-Slovak investment firm. The new owners re-organized the firm into two units: the military division that focuses on Czech Air Force and L-159s and the aero structures division that builds helicopters and parts for a number of foreign partners. During emboff's recent visit to the plant, an Aero official stated that the military division will not be a future area of growth for the firm. Aero's military division largely focuses on sustaining the Czech Air Force's operational L-159s. The military division also provides spare parts, overhauls, and other logistical support to countries and individuals that continue to fly older L-39s and L-59s.

5.(SBU) Aero considers its major area of growth is producing aircraft parts and assembling helicopters for Sikorsky. As an example, Aero, in partnership with Allenia, the Italian aerospace company, manufactures the central wing box for the C-27J. The two companies signed the first contract in 2006, with the first wing box produced in December 2007. Aero works with 20 different partners on this project. Since 2008, Aero has produced door sub-assemblies for the Embraer 170/190 regional jet. Since 2001, Aero has also produced 300 gun bay doors for the F-18. Since 2000, the firm has assembled 250 S-76 C helicopters for Sikorsky. The company has the ability to produce around 55 helicopters per year. Of the 8500 parts required for each S-76, Aero produces 3700. Two hundred other suppliers make the remaining parts. Aero has also provided parts for Airbus, Saab, and other aircraft manufacturers.

6.(SBU) Aero officials told us that since the painful reorganization in 2007, the company is now profitable with growing sales. In 2006, the company, with 104 million Euros in revenue (around USD 135 million) and 96 million Euros (approximately USD 125 million) in exports, lost 24 million Euros (around USD 32 million). By the end of 2007, the company posted revenue of 148 million Euros (approximately USD 192 million) and 124 million Euros (around USD 184 million) in exports. The company made a profit of 10 million Euros (approximately USD 13 million) in 2007. For 2008, the company forecasted that it would reach 212 million Euros in revenue (around USD 275 million), exports of 160 million Euros (approximately 208 million), and a profit of 20 million Euros (around USD 26 million). Although Aero officials did not discuss it during the meeting, the world-wide recession and the resulting decline in demand for aircraft will undoubtedly impact their sales.

7.(SBU) Comment: Aero Vodohody and its overall compliance with U.S. export controls makes it a solid candidate for onward U.S.-Czech defense cooperation. It could serve as a model for other ageing defense companies in this area of the world on how to profitably restructure and use its niche capabilities to cooperate with Western aerospace and defense companies.
Thompson-Jones